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ARIZONA CORPORATION COMMISSION

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December 11, 2003

Mr. Jim Pignatelli
President and CEO
UniSource Energy Services
1 South Church, Suite 1870
Tucson, AZ 85701

E-01032C-00-0751
G-01032A-02-0598
E-01933A-02-0914
E-01032C-02-0914
G-01032A-02-0914

Re: UniSource Energy Services' (UES) Status of Renegotiation of Purchased Power Contract with Pinnacle West Capital Corporation (PWCC);
Decision # 66028

Dear Mr. Pignatelli

When this Commission approved the sale of certain gas and electric utility assets from Citizens to UniSource, one of the conditions of that approval was that UniSource attempt to renegotiate its purchased power contract with Pinnacle West Capital Corporation (PWCC) and that any savings realized would be allocated in a ratio of 90 percent to ratepayers and 10 percent to shareholders. The purpose of this condition is to provide some relief to customers from the rate increase also granted in the order and a significant reason why I voted to approve the sale.

UniSource is also required to file progress reports on the renegotiation efforts, a task which it has faithfully performed. In its latest report, dated December 1, 2003, UniSource stated: "There has been no material change in the negotiation status since the October status report." This statement has prompted me to ask the following questions. Does UniSource believe the negotiations to be proceeding in a timely manner? Is PWCC negotiating in a good faith manner? At what point does UniSource plan to utilize FERC's Alternative Resolution Service?

Given the significant rate increase that the prior customers of Citizens are having to endure, it is important to offset this amount in a timely fashion. I am concerned that negotiations are not progressing swiftly enough. Your prompt response to my inquiries is greatly appreciated.

Sincerely,

William A. Mundell, Commissioner
Arizona Corporation Commission

Arizona Corporation Commission

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cc: Chairman Marc Spitzer
Commissioner Hatch-Miller
Commissioner Gleason
Commissioner Mayes
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